

PCM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the PCM Community School District in Prairie City, Iowa.

The District's revenues totaled \$9,379,692 for the year ended June 30, 2006, a 2.6 percent increase from the prior year. Revenues included \$3,792,918 in unrestricted state grants, \$3,486,870 in local tax, \$1,042,908 in charges for services, \$1,036,031 in operating grants, contributions, and restricted interest and \$20,965 in interest on investments.

Expenses for District operations totaled \$9,815,611, a 9.4 percent increase from the prior year. Expenses included \$3,845,055 for regular instruction, \$1,377,275 for special instruction and \$768,393 for administration services.

A copy of the audit report is available for review in the District Secretary's Office, the Office of Auditor of State, and on the Auditor of State's web site <http://auditor.iowa.gov/reports/reports.htm>.

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PCM Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2005 Election)**

John Woestman	President	2006
Mike Streeter	Vice President	2005
Kim Worth	Board Member	2005
Michael Naber	Board Member	2006
Tom Timmons	Board Member	2006
Mike Schippers	Board Member	2007
Fred Peasley	Board Member	2007

**Board of Education
(After September 2005 Election)**

Michael Naber	President	2006
Fred Peasley	Vice President	2007
John Woestman	Board Member	2006
Tom Timmons	Board Member	2006
Mike Schippers	Board Member	2007
Krista Von Bank	Board Member	2008
Suzanne Morecock	Board Member	2008

School Officials

Kirk Nelson	Superintendent	2006
Linda Beyer	District Secretary/Treasurer and Business Manager (Resigned)	2006
Tami Thomas	District Secretary/Treasurer and Business Manager (Appointed)	2006
Peter Pashler	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of PCM Community School District, Prairie City Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the PCM Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2006 on our consideration of the PCM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PCM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

August 4, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

PCM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,480,518 in fiscal 2005 to \$7,568,534 in fiscal 2006, while General Fund expenditures increased from \$7,755,250 in fiscal 2005 to \$8,112,532 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$1,004,084 in fiscal 2005 to a balance of \$460,086 in fiscal 2006, a 54% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in regular instruction and administrative service costs.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of PCM Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report PCM Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which PCM Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
PCM Community School District Annual Financial Report

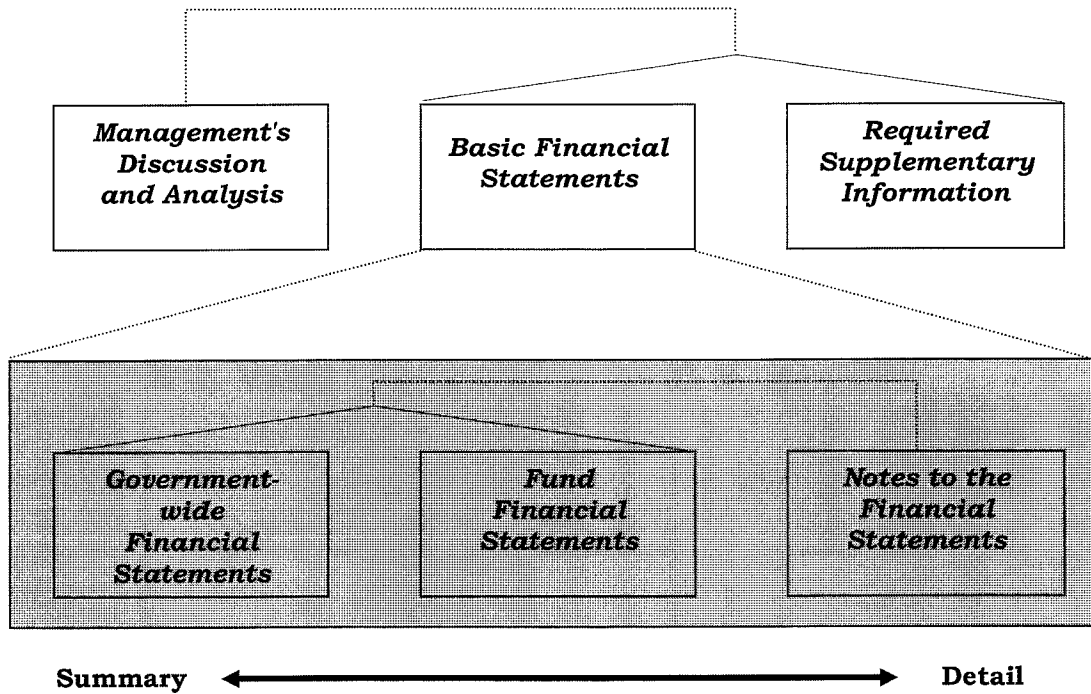


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

- a. Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 5,187,033	5,432,117	18,768	19,932	5,205,801	5,452,049	-4.52%
Capital assets	3,830,068	3,983,826	35,900	46,181	3,865,968	4,030,007	-4.07%
Total assets	9,017,101	9,415,943	54,668	66,113	9,071,769	9,482,056	-4.33%
Long-term obligations	1,538,806	1,681,344	0	0	1,538,806	1,681,344	-8.48%
Other liabilities	3,057,173	2,904,414	32,020	16,609	3,089,193	2,921,023	5.76%
Total liabilities	4,595,979	4,585,758	32,020	16,609	4,627,999	4,602,367	0.56%
Net assets:							
Invested in capital assets, net of related debt	2,792,479	2,760,920	35,900	46,181	2,828,379	2,807,101	0.76%
Restricted	1,115,222	1,033,725	0	0	1,115,222	1,033,725	7.88%
Unrestricted	513,421	1,035,540	(13,252)	3,323	500,169	1,038,863	-51.85%
Total net assets	\$ 4,421,122	4,830,185	22,648	49,504	4,443,770	4,879,689	-8.93%

The District's combined net assets decreased by 8.93%, or \$435,919 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$81,497 or 7.88% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$538,694, or 51.85%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 715,241	672,192	327,667	302,009	1,042,908	974,201	7.05%
Operating grants and contributions and restricted interest	910,379	911,890	125,652	121,762	1,036,031	1,033,652	0.23%
General revenues:							
Local tax	3,486,870	3,391,279	0	0	3,486,870	3,391,279	2.82%
Unrestricted state grants	3,792,918	3,715,803	0	0	3,792,918	3,715,803	2.08%
Other	20,759	24,673	206	231	20,965	24,904	-15.82%
Total revenues	8,926,167	8,715,837	453,525	424,002	9,379,692	9,139,839	2.62%
Program expenses:							
Governmental activities:							
Instructional	5,974,488	5,709,002	0	0	5,974,488	5,709,002	4.65%
Support services	2,518,753	2,201,247	0	0	2,518,753	2,201,247	14.42%
Non-instructional programs	0	0	480,381	475,524	480,381	475,524	1.02%
Other expenses	841,989	589,371	0	0	841,989	589,371	42.86%
Total expenses	9,335,230	8,499,620	480,381	475,524	9,815,611	8,975,144	9.36%
Changes in net assets	(409,063)	216,217	(26,856)	(51,522)	(435,919)	164,695	-364.68%
Net assets beginning of year	4,830,485	4,613,968	49,504	101,026	4,879,989	4,714,994	3.50%
Net assets end of year	\$ 4,421,422	4,830,185	22,648	49,504	4,444,070	4,879,689	-8.93%

Property tax and unrestricted state grants account for 81.56% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.96% of the revenue from business type activities.

The District's total revenues were approximately \$9.4 million of which \$8.9 million was for governmental activities and less than \$0.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.62% increase in revenues and a 9.36% increase in expenses. Unrestricted state grants increased \$77,115 and local tax increased \$95,591 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$8,926,167 and expenses were \$9,335,230. In a difficult budget year, the District was able to balance the budget by expending monies from the fund balances.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,974,488	4,686,949
Support services	2,518,753	2,514,006
Other expenses	841,989	508,655
Totals	<u>\$ 9,335,230</u>	<u>7,709,610</u>

- The cost financed by users of the District's programs was \$715,241.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$910,379.
- The net cost of governmental activities was financed with \$3,486,870 in local tax, \$3,792,918 in unrestricted state grants, and \$20,759 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$453,525 and expenses were \$480,381. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the PCM Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,969,059, compared to last year's ending fund balances of \$2,386,265.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. Increase in the state revenues during the year resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the decrease in the financial position of the District.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$137,145 to \$169,097, due to revenues surpassing expenditures during fiscal 2005.
- The Capital Projects fund balance increased from \$739,218 to \$852,324 due to the increase in local option sales and service tax.

- The Debt Service fund balance increased from \$114,096 to \$116,702, due to increased revenues for the year.
- The Student Activity and Expendable Trust fund combined balance increased from \$149,381, to \$152,533, due to an increase in revenues in the Activity Fund.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$49,504 at June 30, 2005 to \$22,648 at June 30, 2006, representing a decrease of approximately 54%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$135,045 more than budgeted revenues, a variance of 1.5%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Unfortunately, during fiscal 2006, the District exceeded budgeted expenditures in the non-instructional programs area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.3% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$237,963.

The original cost of the District's capital assets was \$7,866,306. Governmental funds account for \$7,619,447 with \$246,859 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$315,261 at June 30, 2005, compared to \$226,801 reported at June 30, 2006. This decrease resulted primarily from depreciation expense during the year.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 156,462	156,462	0	0	156,462	156,462	0.00%
Buildings	3,446,805	3,512,103	0	0	3,446,805	3,512,103	-1.89%
Machinery and equipment	226,801	315,261	35,900	46,181	262,701	361,442	-37.59%
Total	\$ 3,830,068	3,983,826	35,900	46,181	3,865,968	4,032,012	-4.30%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$1,538,806 in general obligation bonds, revenue bonds, real estate contracts and early retirement. This represents a decrease of approximately 8.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,150,000 at June 30, 2006, for the Prairie City Elementary.

The District had revenue bonds payable of \$150,000 at June 30, 2006, for the nature and education center that will be located at the District's high school site.

The District had a real estate contract payable of \$59,600 at June 30, 2006, for the Monroe Motors building.

The District also had total outstanding early retirement payable of \$179,206 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 1,150,000	1,315,000	-12.5%
Revenue bonds	150,000	175,000	-14.3%
Real estate contract	59,600	152,000	-60.8%
Early retirement	179,206	39,344	355.5%
Total	<u>\$ 1,538,806</u>	<u>1,681,344</u>	<u>-8.5%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Development along Highway 163 has the potential for new economic opportunities, which could positively affect the District in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tami Thomas, Board Secretary/Business Manager, PCM Community School District, P.O. Box 490, Prairie City, Iowa, 50228.

BASIC FINANCIAL STATEMENTS

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,900,569	2,003	1,902,572
Receivables:			
Property tax:			
Delinquent	66,385	0	66,385
Succeeding year	2,884,465	0	2,884,465
Income surtax	167,000	0	167,000
Interfund	26,000	0	26,000
Accounts	12,977	0	12,977
Due from other governments	129,637	0	129,637
Inventories	0	16,765	16,765
Capital assets, net of accumulated depreciation(Note 5)	3,830,068	35,900	3,865,968
TOTAL ASSETS	9,017,101	54,668	9,071,769
LIABILITIES			
Interfund payable	0	26,000	26,000
Accounts payable	166,509	0	166,509
Interest payable	6,199	0	6,199
Deferred revenue:			
Succeeding year property tax	2,884,465	0	2,884,465
Other	0	6,020	6,020
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	175,000	0	175,000
Revenue bonds	25,000	0	25,000
Real estate contract payable	22,020	0	22,020
Early retirement	34,723	0	34,723
Portion due after one year:			
General obligation bonds	975,000	0	975,000
Revenue bonds	125,000	0	125,000
Real estate contract payable	37,580	0	37,580
Early retirement	144,483	0	144,483
TOTAL LIABILITIES	4,595,979	32,020	4,627,999
NET ASSETS			
Investment in capital assets, net of related debt	2,792,479	35,900	2,828,379
Restricted for:			
Early intervention	74,352	0	74,352
Talented and gifted	39,313	0	39,313
Management levy	39,111	0	39,111
Physical plant and equipment levy	109,249	0	109,249
Capital projects	700,664	0	700,664
Other special revenue purposes	152,533	0	152,533
Unrestricted	513,421	(13,252)	500,169
TOTAL NET ASSETS	\$ 4,421,122	22,648	4,443,770

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 3,845,055	277,141	572,298	(2,995,616)	0	(2,995,616)
Special instruction	1,377,275	40,670	0	(1,336,605)	0	(1,336,605)
Other instruction	752,158	397,430	0	(354,728)	0	(354,728)
	5,974,488	715,241	572,298	(4,686,949)	0	(4,686,949)
Support services:						
Student services	214,986	0	0	(214,986)	0	(214,986)
Instructional staff services	367,870	0	0	(367,870)	0	(367,870)
Administration services	768,393	0	0	(768,393)	0	(768,393)
Operation and maintenance of plant services	685,090	0	0	(685,090)	0	(685,090)
Transportation services	482,414	0	4,747	(477,667)	0	(477,667)
	2,518,753	0	4,747	(2,514,006)	0	(2,514,006)
Other expenditures:						
Facilities acquisitions	356,030	0	52,083	(303,947)	0	(303,947)
Long-term debt interest	72,675	0	0	(72,675)	0	(72,675)
AEA flowthrough	281,251	0	281,251	0	0	0
Depreciation (unallocated) *	132,033	0	0	(132,033)	0	(132,033)
	841,989	0	333,334	(508,655)	0	(508,655)
Total governmental activities	9,335,230	715,241	910,379	(7,709,610)	0	(7,709,610)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	480,381	327,667	125,652	0	(27,062)	(27,062)
Total business-type activities	480,381	327,667	125,652	0	(27,062)	(27,062)
Total	\$ 9,815,611	1,042,908	1,036,031	(7,709,610)	(27,062)	(7,736,672)
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,600,280	0	2,600,280
Debt services				225,354	0	225,354
Capital outlay				186,176	0	186,176
Local option sales and service tax				475,060	0	475,060
Unrestricted state grants				3,792,918	0	3,792,918
Unrestricted investment earnings				20,759	206	20,965
Total general revenues				7,300,547	206	7,300,753
Changes in net assets				(409,063)	(26,856)	(435,919)
Net assets beginning of year				4,830,185	49,504	4,879,689
Net assets end of year				\$ 4,421,122	22,648	4,443,770

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 340,836	915,611	644,122	1,900,569
Receivables:				
Property tax				
Delinquent	53,858	0	12,527	66,385
Succeeding year	2,307,172	0	577,293	2,884,465
Income surtax	167,000	0	0	167,000
Interfund	26,000	0	0	26,000
Accounts	12,977	0	0	12,977
Due from other governments	33,489	96,148	0	129,637
TOTAL ASSETS	\$ 2,941,332	1,011,759	1,233,942	5,187,033
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,074	159,435	0	166,509
Deferred revenue:				
Succeeding year property tax	2,307,172	0	577,293	2,884,465
Income surtax	167,000	0	0	167,000
Total liabilities	2,481,246	159,435	577,293	3,217,974
Fund balances:				
Reserved for:				
Early intervention	74,352	0	0	74,352
Talented and gifted	39,313	0	0	39,313
Debt service	0	0	116,702	116,702
Unreserved:				
Undesignated	346,421	852,324	539,947	1,738,692
Total fund balances	460,086	852,324	656,649	1,969,059
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,941,332	1,011,759	1,233,942	5,187,033

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 1,969,059
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,830,068
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(6,199)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	167,000
Long-term liabilities, including bonds payable, real estate contract payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,538,806)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 4,421,122</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,470,339	0	533,222	3,003,561
LOSST	0	475,060	0	475,060
Tuition	317,811	0	0	317,811
Other	129,262	33,162	307,847	470,271
State sources	4,455,258	0	352	4,455,610
Federal sources	195,604	0	0	195,604
Total revenues	7,568,274	508,222	841,421	8,917,917
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	3,650,508	0	60,884	3,711,392
Special instruction	1,377,275	0	0	1,377,275
Other instruction	455,508	0	296,650	752,158
	5,483,291	0	357,534	5,840,825
Support services:				
Student services	214,191	0	795	214,986
Instructional staff services	331,870	0	0	331,870
Administration services	766,001	0	2,392	768,393
Operation and maintenance of plant services	640,566	0	52,238	692,804
Transportation services	395,362	0	27,784	423,146
	2,347,990	0	83,209	2,431,199
Non-instructional:				
Food service operations	0	0	3,320	3,320
Other expenditures:				
Facilities acquisitions	0	363,323	59,442	422,765
Long-term debt:				
Principal	0	0	282,400	282,400
Interest and fiscal charges	0	0	73,623	73,623
AEA flowthrough	281,251	0	0	281,251
	281,251	363,323	415,465	1,060,039
Total expenditures	8,112,532	363,323	859,528	9,335,383
Excess(deficiency) of revenues over(under) expenditures	(544,258)	144,899	(18,107)	(417,466)
Other financing sources(uses):				
Transfers in	0	0	131,793	131,793
Transfers out	0	(31,793)	(100,000)	(131,793)
Sales of equipment and materials	260	0	0	260
Total other financing sources(uses)	260	(31,793)	31,793	260
Net change in fund balances	(543,998)	113,106	13,686	(417,206)
Fund balance beginning of year	1,004,084	739,218	642,963	2,386,265
Fund balance end of year	\$ 460,086	852,324	656,649	1,969,059

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (417,206)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Deprecation expense exceeded capital outlays expenditures in the current year, as follows:

Capital expenditures	\$ 74,164	
Depreciation expense	<u>(227,922)</u>	(153,758)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Repaid		282,400
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ (139,862)	
ISEBA assessment	<u>10,165</u>	(129,697)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

8,250

Changes in net assets of governmental activities (page 14) \$ (409,063)

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 2,003
Inventories	16,765
Capital assets, net of accumulated depreciation(Note 5)	<u>35,900</u>
TOTAL ASSETS	<u>54,668</u>
LIABILITIES	
Interfund payable	26,000
Deferred revenues	<u>6,020</u>
TOTAL LIABILITIES	<u>32,020</u>
NET ASSETS	
Investment in capital assets, net of related debt	35,900
Unrestricted	<u>(13,252)</u>
TOTAL NET ASSETS	<u><u>\$ 22,648</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 327,667</u>
OPERATING EXPENSES:	
Food service operations:	
Salaries	144,102
Benefits	69,343
Services	54,408
Supplies	202,247
Depreciation	10,281
TOTAL OPERATING EXPENSES	<u>480,381</u>
OPERATING LOSS	<u>(152,714)</u>
NON-OPERATING REVENUES:	
Interest	206
State sources	5,713
Federal sources	119,939
TOTAL NON-OPERATING REVENUES	<u>125,858</u>
Change in net assets	(26,856)
Net assets at beginning of year	<u>49,504</u>
Net assets end of year	<u><u>\$ 22,648</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 327,628
Cash payments to employees for services	(197,445)
Cash payments to suppliers for goods or services	(255,309)
Net cash used in operating activities	<u>(125,126)</u>
Cash flows from non-capital financing activities:	
Borrowings from General Fund	16,000
State grants received	5,713
Federal grants received	103,033
Net cash provided by non-capital financing activities	<u>124,746</u>
Cash flows from investing activities:	
Interest on investments	<u>206</u>
Net decrease in cash and cash equivalents	(174)
Cash and cash equivalents at beginning of year	<u>2,177</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,003</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (152,714)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,906
Depreciation	10,281
Decrease in inventories	990
Decrease in accounts payable	(550)
Decrease in deferred revenue	(39)
Net cash used in operating activities	<u><u>\$ (125,126)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 2,003</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$16,906.

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2006

	Private Purpose Trust	Scholarship
ASSETS		
Cash and pooled investments	\$	52,600
TOTAL ASSETS	\$	52,600
LIABILITIES AND FUND BALANCE		
Liabilities:	\$	0
Fund balances:		
Reserved for scholarships		52,600
TOTAL LIABILITES AND FUND BALANCE	\$	52,600

SEE NOTES TO FINANCIAL STATEMENTS.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The PCM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Prairie City, and Monroe, Iowa, and the predominate agricultural territory in Jasper, Marion and Polk Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, PCM Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The PCM Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper, Marion and Polk County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund.

The District's proprietary funds is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit of other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 9,300

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2006, the District had investments in Certificates of Deposit maturing over one year as follows:

	Fair Value
Certificates of Deposit	\$ 52,600

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables for the year ended June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 26,000

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 100,000
Debt Service	Local Option Sales Tax	31,793
Total		\$ 131,793

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 156,462	0	0	156,462
Total capital assets not being depreciated	156,462	0	0	156,462
Capital assets being depreciated:				
Buildings	6,189,238	66,735	0	6,255,973
Machinery and equipment	1,320,096	7,429	120,513	1,207,012
Total capital assets being depreciated	7,509,334	74,164	120,513	7,462,985
Less accumulated depreciation for:				
Buildings	2,677,135	132,033	0	2,809,168
Machinery and equipment	1,004,835	95,649	120,273	980,211
Total accumulated depreciation	3,681,970	227,682	120,273	3,789,379
Total capital assets being depreciated, net	3,827,364	(153,518)	240	3,673,606
Governmental activities capital assets, net	\$ 3,983,826	(153,518)	240	3,830,068

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 246,859	0	0	246,859
Less accumulated depreciation	200,678	10,281	0	210,959
Business-type activities capital assets, net	<u>\$ 46,181</u>	<u>(10,281)</u>	<u>0</u>	<u>35,900</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 32,576
Support services:	
Operation and maintenance of plant services	3,805
Transportation	59,268
	<u>95,649</u>
Unallocated depreciation	132,033
Total governmental activities depreciation expense	<u>\$ 227,682</u>
Business-type activities:	
Food services	<u>\$ 10,281</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 1,315,000	0	165,000	1,150,000	175,000
Revenue bonds	175,000	0	25,000	150,000	25,000
Real estate contract	152,000	0	92,400	59,600	22,020
Early retirement	39,344	175,491	35,629	179,206	34,723
Total	<u>\$ 1,681,344</u>	<u>175,491</u>	<u>318,029</u>	<u>1,538,806</u>	<u>256,743</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Employees must be between the ages of fifty-five and sixty-four and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are equal to 75% of the employees yearly salary.

Real Estate Contract Payable

Details of the District's June 30, 2006 real estate contract Indebtedness, which is paid from the Physical Plant and Equipment Levy Fund, is as follows:

Year Ending June 30,	Interest Rate	Real Estate Contract issue dated June 1, 2003		
		Principal	Interest	Total
2007	5.00 %	\$ 22,020	2,980	25,000
2008	5.00	37,580	1,879	39,459
Total		<u>\$ 59,600</u>	<u>4,859</u>	<u>64,459</u>

General Obligation

Details of the District's June 30, 2006 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated August 1, 1998		
		Principal	Interest	Total
2007	4.45 %	\$ 175,000	51,488	226,488
2008	4.45	180,000	43,700	223,700
2009	4.45	185,000	35,690	220,690
2010	4.45	195,000	27,458	222,458
2011	4.50	205,000	18,780	223,780
2012	4.55	210,000	9,555	219,555
Total		\$ 1,150,000	186,670	1,336,670

Revenue Bonds Payable

During the year ended June 30, 2005, the District entered into an agreement with Metro Waste Authority providing for \$175,000 for building the nature and education center that will be located on the premises of the District. The note is scheduled to be repaid April 1, 2012.

Details of the District's June 30, 2006 Revenue Bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated April 13, 2005		
		Principal	Interest	Total
2007	4.25 %	\$ 25,000	5,977	30,977
2008	4.25	25,000	4,914	29,914
2009	4.25	25,000	3,852	28,852
2010	4.25	25,000	2,789	27,789
2011	4.25	25,000	1,727	26,727
2012	4.25	25,000	664	25,664
Total		\$ 150,000	19,922	169,922

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$303,533, \$286,420, and \$272,798 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$281,251 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted expenditures at the functional area level. During the year ended June 30, 2006, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

(11) Deficit Account Balance

As of June 30, 2006, the Nutrition Fund had a deficit unrestricted fund balance of \$13,252.

REQUIRED SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,266,703	327,873	4,594,576	4,470,122	4,470,122	124,454
State sources	4,455,610	5,713	4,461,323	4,453,275	4,453,275	8,048
Federal sources	195,604	119,939	315,543	313,000	313,000	2,543
Total revenues	8,917,917	453,525	9,371,442	9,236,397	9,236,397	135,045
Expenditures:						
Instruction	5,840,825	0	5,840,825	5,668,000	5,900,000	59,175
Support services	2,431,199	0	2,431,199	2,384,300	2,600,000	168,801
Non-instructional programs	3,320	480,381	483,701	452,000	475,000	(8,701)
Other expenditures	1,060,039	0	1,060,039	1,028,395	1,200,000	139,961
Total expenditures	9,335,383	480,381	9,815,764	9,532,695	10,175,000	359,236
Excess(deficiency) of revenues over(under) expenditures	(417,466)	(26,856)	(444,322)	(296,298)	(938,603)	494,281
Other financing sources, net	260	0	260	0	0	260
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(417,206)	(26,856)	(444,062)	(296,298)	(938,603)	494,541
Balance beginning of year	2,386,265	49,504	2,435,769	2,101,194	2,101,194	334,575
Balance end of year	\$ 1,969,059	22,648	1,991,707	1,804,896	1,162,591	829,116

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$642,305.

During the year ended June 30, 2006, expenditures in the non-instructional programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

PCM COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds						
	Management	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 215,434	164,572	148,795	3,738	532,539	111,583	644,122
Receivables:							
Property tax:							
Current year delinquent	2,883	4,525	0	0	7,408	5,119	12,527
Succeeding year	150,000	200,505	0	0	350,505	226,788	577,293
TOTAL ASSETS	\$ 368,317	369,602	148,795	3,738	890,452	343,490	1,233,942
LIABILITIES AND FUND BALANCE							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	150,000	200,505	0	0	350,505	226,788	577,293
	150,000	200,505	0	0	350,505	226,788	577,293
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	116,702	116,702
Unreserved:							
Undesignated	218,317	169,097	148,795	3,738	539,947	0	539,947
Total fund balances	218,317	169,097	148,795	3,738	539,947	116,702	656,649
TOTAL LIABILITIES AND FUND BALANCE	\$ 368,317	369,602	148,795	3,738	890,452	343,490	1,233,942

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total	
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 121,691	186,176	0	0	307,867	225,355	533,222
Other	1,621	5,089	297,978	1,824	306,512	1,335	307,847
State sources	77	129	0	0	206	146	352
TOTAL REVENUES	123,389	191,394	297,978	1,824	614,585	226,836	841,421
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	60,884	0	0	0	60,884	0	60,884
Other instruction	0	0	294,300	2,350	296,650	0	296,650
Support services:							
Student services	795	0	0	0	795	0	795
Administration services	2,392	0	0	0	2,392	0	2,392
Operation and maintenance of plant services	52,238	0	0	0	52,238	0	52,238
Transportation services	27,784	0	0	0	27,784	0	27,784
Non-instructional:							
Food service operations	3,320	0	0	0	3,320	0	3,320
Other expenditures:							
Facilities acquisition	0	59,442	0	0	59,442	0	59,442
Long-term debt:							
Principal	0	0	0	0	0	282,400	282,400
Interest	0	0	0	0	0	73,623	73,623
TOTAL EXPENDITURES	147,413	59,442	294,300	2,350	503,505	356,023	859,528
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(24,024)	131,952	3,678	(526)	111,080	(129,187)	(18,107)
TOTAL OTHER FINANCING SOURCES (USES)							
Transfer in	0	0	0	0	0	131,793	131,793
Transfer out	0	(100,000)	0	0	(100,000)	0	(100,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	(100,000)	0	0	(100,000)	131,793	31,793
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(24,024)	31,952	3,678	(526)	11,080	2,606	13,686
FUND BALANCE BEGINNING OF YEAR	242,341	137,145	145,117	4,264	528,867	114,096	642,963
FUND BALANCE END OF YEAR	\$ 218,317	169,097	148,795	3,738	539,947	116,702	656,649

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Art club	\$ 977	78	128	927
Athletics	35,945	132,562	131,738	36,769
Band	6,469	22,039	24,002	4,506
Cheerleaders	2,798	3,580	4,719	1,659
Class of 2004	115	0	0	115
Class of 2005	6	0	0	6
Class of 2006	3,068	5,937	9,000	5
Class of 2007	2,255	2,176	2,539	1,892
Class of 2009	3,133	3,300	4,698	1,735
Class of 2010	3,284	3,167	3,549	2,902
Class of 2011	6,548	5,413	3,523	8,438
Conference activities	38	0	0	38
Drama	927	758	828	857
Mustang club	17,759	23,434	21,446	19,747
FFA	4,521	22,411	22,190	4,742
Foods/clothing club	339	251	115	475
Football club	1,979	8,668	8,584	2,063
Interest	782	553	0	1,335
Jazz creation	3,603	13,941	15,415	2,129
Journalism	229	83	68	244
Korver Memorial	122	0	0	122
Library club	20	0	0	20
National honor society	302	534	201	635
Pop fund	4,115	1,161	1,225	4,051
Science club	417	0	0	417
Spanish club	993	0	0	993
Speech club	(75)	2,193	1,681	437
Spirit club	615	7,830	1,528	6,917
Student government	14,739	16,707	19,223	12,223
Thespians	675	746	1,070	351
Vocal	8,094	1,431	5,310	4,215
Weight club	1,092	0	1,092	0
Accounting club	6,075	3,849	1,807	8,117
Playground	3,244	0	0	3,244
Reading club	4,372	2,056	1,204	5,224
Spelling bee	424	0	0	424
Just say no club	2,017	2,375	2,833	1,559
Preschool	303	725	725	303
Yearbook	2,798	10,020	3,859	8,959
Total	\$ 145,117	297,978	294,300	148,795

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PCM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 3,478,621	3,393,896	3,195,617	2,765,410
Tuition	317,811	293,058	264,258	301,520
Other	470,271	401,957	525,001	465,522
Intermediate sources	0	0	0	7,933
State sources	4,455,610	4,331,308	4,025,365	4,018,548
Federal sources	195,604	296,385	179,153	156,692
Total	<u>\$ 8,917,917</u>	<u>8,716,604</u>	<u>8,189,394</u>	<u>7,715,625</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 3,711,392	3,588,938	3,336,553	3,277,579
Special instruction	1,377,275	1,309,659	1,198,740	1,172,368
Other instruction	752,158	782,833	916,466	802,467
Support services:				
Student services	214,986	215,362	197,528	191,396
Instructional staff services	331,870	245,061	243,778	229,325
Administration services	768,393	647,847	625,238	618,439
Operation and maintenance of plant services	692,804	646,719	673,256	689,565
Transportation services	423,146	445,373	412,863	353,365
Central services	0	0	5,798	10,807
Non-instructional:				
Food service operations	3,320	2,209	1,701	1,375
Other expenditures:				
Facilities acquisitions	422,765	168,576	33,113	381,554
Long Term Debt:				
Principal	282,400	243,000	275,000	205,000
Interest	73,623	78,128	90,983	85,540
AEA flow-through	281,251	275,226	268,445	288,508
Total	<u>\$ 9,335,383</u>	<u>8,648,931</u>	<u>8,279,462</u>	<u>8,307,288</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
PCM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of PCM Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 4, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PCM Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

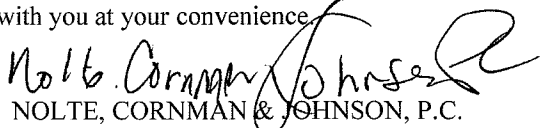
As part of obtaining reasonable assurance about whether PCM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of PCM Community School District and other parties to whom PCM Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of PCM Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 4, 2006

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will comply.

Conclusion - Response accepted.

- I-C-06 Purchase Orders - We noted during our audit that in the Student Activity Fund 29% and in the General Fund 18% of the invoices tested indicated that purchase orders were not approved prior to the actual purchase of goods.

Recommendation - The District should ensure that purchase procedures are followed. The purchase order when properly completed provides a document which shows authorization of order and which line item account will be affected. By properly using the purchase order system, the District may be able to more easily track budgeted expenditures and encumbered amounts toward the specific items.

Response - We will review and comply.

Conclusion - Response accepted.

- I-D-06 Early Retirement - The District's early retirement policy stipulates that any employee under the age of 65 who has worked a minimum of fifteen years of services as a full-time certified employee and who is between the ages of 55-64 as of June 30 of that school year can elect to take early retirement. As an additional stipulation for taking early retirement with the District, the employee must participate in the District's group health insurance program. The District's early retirement policy is compliant with Chapter 279.46 of the Code of Iowa; however, the District has allowed Judith Epps to take early retirement even though she is not participating in the District's group health insurance program. This appears to be a violation of the District's Board approved early retirement policy.

Recommendation - We recommend that the District consult legal counsel to determine legality of the early retirement as well as subsequent action needed. The Board should adopt procedures that ensures only eligible employees are approved for early retirement.

Response - Although the retirement did not comply with the policy, it was compliant with 279.46 of the Code of Iowa. We will review the District policy.

Conclusion - Response accepted.

- I-E-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - We will comply.

Conclusion - Response accepted.

- I-F-06 Student Activity Fund - We noted during our audit that the Student Activity fund included old class accounts.

Recommendation - The District should close out class accounts upon graduation.

Response - We will comply.

Conclusion - Response accepted.

- I-G-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events, but does not receipt any portion of the rent to the General Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires a portion of the rent to be receipted into the General Fund. The district should receipt a portion of rent collected for facility usage into the General Fund.

Response - In the future a portion of the rents will be receipted to the General Fund.

Conclusion - Response accepted.

- I-H-06 Physical Plant and Equipment Levy (PPEL) Expenditures - According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. We noted during our audit that the District purchased thirty-eight computer monitors from the PPEL Fund for \$8,149, which is less than \$500 per single unit.

Recommendation - The District should review the Code of Iowa with regard to allowable expenditures from the PPEL Fund to avoid non compliance. The District should make a corrective transfer to the PPEL Fund from the General Fund.

Response - We will make the corrective transfer as recommended.

Conclusion -Response accepted.

PCM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the non-instructional programs area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will monitor the budget and amend if necessary.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District officials were noted

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not being signed by the Board President.

Recommendation - The Board President should be signing the official minutes for each meeting.

Response - The Board President will sign the official minutes in the future.

Conclusion - Response accepted.

- II-G-06 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuitioned out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Department of Management and resolve this matter.

Conclusion -- Response accepted.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-06 Financial Condition - At June 30, 2006, the District's Nutrition Fund had a negative unrestricted fund balance of \$13,252.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will monitor this fund and find a way to eliminate the deficit.

Conclusion - Response accepted.